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**Testimony presented on behalf of the  
Montana Chapter of the Appraisal Institute  
Before the House Business & Labor Committee  
On  
House Bill 188 – Appraisal Management Companies**

**Presented by**

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Good afternoon, Chair Arntzen and Members of the House Business & Labor Committee. My name is Darwin Ernst. I am a Certified Residential Appraiser working in Ravalli County for the past decade, Chair of the Adjudication Panel for the Montana Board of Real Estate Appraisers for the past four years, a Designated Residential Appraiser within the Appraisal Institute and a co-author for this legislation. I am here today on behalf of the Montana Chapter of the Appraisal Institute to testify in strong support of House Bill 188.

The Appraisal Institute is a global membership association of professional real estate appraisers with nearly 24,000 members throughout the world, including 25% of the professionally licensed real estate appraisers in Montana. Organized in 1932, its mission is to support and advance its members as the choice for real estate solutions and uphold professional credentials, standards of professional practice and ethics consistent with the public good. Members of the Appraisal Institute benefit from an array of professional education and advocacy programs, and may hold the prestigious MAI, SRPA and SRA designations.

We appreciate the committee holding this hearing on HB 188 that would require that appraisal management companies operating in Montana to be registered with the Department of Labor and Industry and subject to a reasonable level of regulation by the Montana Board of Real Estate Appraisers.

HB 188 promotes a sound economy and public trust by facilitating the discovery of fraudulent activity, tracking conflicts of interest, and reducing misrepresentations by third-party brokers of appraisal services, who are currently the only unregulated entities within the financial lending industry. Passage of HB 188 will add new consumer protection measures for Montana citizens when they finance real estate by requiring greater accountability, responsibility, and transparency on the part of the appraisal management companies (AMCs).

Appraisal management companies are business entities that administer networks of independent appraisers to fulfill real estate appraisal assignments on behalf of the financial lending industry. The advent of the appraisal management industry is the result of the outsourcing of appraisal functions by lenders. However, the growth of the industry has resulted in some problems for real estate appraisers, in particular, the widespread "cramdown" of appraisal fees. AMC's market their services to lenders by stating that they will lower the lender's costs for appraisal services. How can they do this? Simply put, they do this on the backs of the Montana real estate appraisers who are systematically screened by area to find the cheapest and fastest appraisers instead of searching for the most qualified appraisers. The appraisal process in the rural state of Montana is becoming more complex and the cost for professional services should be expected to rise accordingly. Currently, a large percentage of a borrower's appraisal

service fee goes to the AMC as a “management fee” and is taken out of the Montana-licensed and professional appraiser’s fee and then an additional fee is added to maximize the profit for the AMC. This scheme is so profitable that the larger lenders have created their own captive AMCs, which are all located outside of Montana and operate to turn an additional profit for the lenders from what used to be an expense.

We are deeply concerned about the impacts that this will have on appraisal quality since highly qualified Montana appraisers cannot maintain profitable businesses when they are unable to earn market appraisal fees. HB 188 would require that AMCs compensate Montana real estate appraisers at a rate that is sufficient to ensure that the appraisal services are completed to the highest quality possible.

As of today, AMCs - which control thousands of appraisal assignments in Montana each year - are not required to register with any government agency, and are not subject to any state or federal regulation. Because of this, we have found that no one is protected from unscrupulous participants. In fact, there have been several instances in other states where a disbarred appraiser has formed an AMC outside the reach of any state regulatory agency, much to the dismay of the state’s appraiser board. Further, the appraisal management company is the only entity in the appraisal process that is not subject to licensing or regulation by any government agency, or any laws or regulations specific to their activity. Banks and other lenders, mortgage brokers, and, of course, appraisers are

all highly regulated by various state and federal entities. It only makes sense that the brokers of appraisal services within the financial lending industry – the appraisal management companies – are also subject to a minimum level of oversight by the Board of Real Estate Appraisers to promote the public trust and protect the citizens of Montana.

As currently drafted, HB 188 would:

- Require AMCs operating in Montana that order appraisals to register with the Board of Real Estate Appraisers (Section 3);
- Prohibit AMCs from being owned by individuals who have had an appraiser license or certification denied, refused, cancelled or revoked (Section 5);
- Require the identification of a “contact individual” for each AMC that will serve as the main point of contact for the Board (Section 6);
- Enact requirements that employees of AMCs are familiar with the real estate appraisal process and applicable standards (Section 7);
- Require AMCs to have systems in place to: 1) verify that they only utilize Montana-licensed or certified appraisers; and 2)

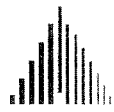
ensure that all appraisals are in compliance with the Uniform Standards of Professional Appraisal Practice (Section 11, 12, and 13);

- Enact requirements that ensure that appraisers are free from coercion or inappropriate influence from AMCs, including provisions that prohibit an AMC from withholding payment to an appraiser that doesn't hit a predetermined property value (Section 17); and
- Prohibit the alteration of appraisal reports by AMCs (Section 19); and
- Establish violations and penalties (Section 22).

We believe that the provisions contained in HB 188 are reasonable and ask the committee to pass this bill as soon as possible.

On behalf of the Montana Chapter of the Appraisal Institute, I appreciate the opportunity to be here today to testify in strong support of HB 188.

The Montana Chapter of the Appraisal Institute looks forward to working with you, Madame Chair and the members of the Business & Labor Committee to pass this bill that would enact a comprehensive registration



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and regulatory program for appraisal management companies operating in the State of Montana. I would be happy to answer any technical questions from the Committee, as a co-author of this bill.